

RES 12B — Study Guide

A concise guide to the combined RES 12B paper — RES 1B (Rules, Ethics and Skills for Securities Dealers of Non-Exchange Members) and RES 2B (the derivatives equivalent). It condenses the official study guide into what the examination tests, section by section.

- Exam: 60 multiple-choice questions, 1 hour 30 minutes, 75% to pass.
- Penalties: know which conduct is prohibited and the control that prevents it; the amount of any penalty is not tested.
- Currency of the law: the official guide states its material as current at 30 September 2023. Confirm the legislation, MAS notices, exchange rules and firm procedures before relying on a point operationally.

How to use this guide

- Every chapter ends with Exam cues — what is tested, the deciding distinction and the common trap.
- RES 1B and RES 2B share the market-participants, licensing, market-conduct and AML/CFT material. Study it once; the genuine differences are securities-specific (CPFIS, securities dealing skills) versus derivatives-specific (OTC derivatives, derivatives dealing).
- Learn the distinctions the paper tests — exchange vs OTC, agent vs principal, AI/II/EI vs retail, CAR vs CKA, EIP vs SIP — not the wording of the rules.

Coverage map

RES 1B

1. Capital markets industry and participants
2. Licensing and business operations
3. Market conduct
4. Ethics and standards for securities dealing
5. Securities dealing practices and skills
6. CPFIS
7. Prevention of financial crimes
8. Appendices A–H

RES 2B

1. Capital markets industry and participants
 2. Licensing and business operations
 3. Market conduct
 4. OTC derivatives
 5. Ethics and standards for derivatives dealing
 6. Derivatives dealing practices and skills
 7. Prevention of financial crimes
 8. Appendices A–G
-

Part I — RES 1B

Chapter 1 — The capital markets industry in Singapore and participants

Who and what makes up the Singapore market: the primary and secondary markets, the institutions that intermediate and regulate them, and the listing framework. The examination tests roles, powers and thresholds — which body may do what, and which applicant fits which listing route.

1.1 Introduction

1.1.1 The primary market The primary market is where issuers raise new capital — equity shares, bonds and other fixed-income securities, and company warrants. Investors supply capital and accept that the instrument's value will move with the issuer's performance, market conditions and risk perception.

1.1.2 The secondary market The secondary market is where those instruments change hands after issue. It lets investors realise profits, exit poor investments, transfer risk and rebalance. Derivatives — futures, options, warrants, leverage certificates — transfer or manage risk without buying or selling the underlying.

1.1.3 Exchanges and OTC markets An OTC market is decentralised: participants contact one another to discover interest and negotiate. An exchange centralises buy and sell interest, improving price and quantity discovery. A person trades on an exchange either as a Trading Member or as a customer of one.

1.1.4 Financial intermediaries Primary-market issues are complex and normally involve an issue manager or corporate-finance adviser, often a bank or CMS licence holder, who runs due diligence, structuring, documentation, regulatory submissions and investor communication. In the secondary market, brokers match or route orders; custodians safeguard client assets and support settlement.

1.2 Institutional participants in capital markets

1.2.1 Banks

- **Qualifying Full Banks and Full Banks:** full range of approved banking business; accept deposits in any amount and currency; provide capital-market, custody, underwriting and corporate-finance services.
- **Wholesale Banks:** accept foreign-currency deposits in any amount, but Singapore-dollar deposit-taking is restricted. They may take SGD fixed deposits of at least S\$250,000. SGD savings/current accounts for Singapore-resident natural persons are generally non-interest-bearing unless MAS approves otherwise.
- **Merchant Banks:** licensed under section 55S of the Banking Act; cannot accept SGD deposits from, or borrow SGD from, the public except within permitted categories (banks, finance companies, shareholders and shareholder-controlled companies).

1.2.2 CMS licence holders CMS licence holders conduct regulated activities such as dealing in capital markets products, advising on corporate finance and providing custodial services, as principal or agent. Product financing (credit for purchases) and specified-product lending (lending securities/products under the rules) are different activities and must not be confused.

1.2.3 Finance companies Finance companies operate under the Finance Companies Act and may be exempt institutions for specified CMS licensing purposes, subject to their legal and regulatory conditions.

1.2.4 Remote overseas trading and clearing members An overseas-based remote member is exempt from a Singapore CMS licence if it: is incorporated outside Singapore; is a member of the relevant approved exchange/clearing house or recognised market operator/clearing house; does not serve Singapore residents; is not a Singapore-regulated financial institution; is regulated at home; and its home regulator has a suitable MAS information-sharing arrangement. A remote clearing member additionally cannot have a MAS-regulated financial-institution affiliate; a remote trading member has no such restriction.

1.3 Regulatory framework and regulatory bodies

Singapore's framework aims at acceptable risk and financial-system stability, safe and efficient infrastructure, fair/orderly/transparent markets, and informed customers.

1.3.1 Monetary Authority of Singapore (MAS) MAS is Singapore's central bank and integrated financial supervisor. Its functions include monetary policy, currency issuance, payment-system oversight, acting as banker and financial agent to the Government, supervision and financial-stability surveillance, managing official reserves and developing Singapore as an international financial centre.

MAS administers the SFA, SFR(LCB), Organised Markets Regulations, Clearing Facilities Regulations, Financial and Margin Requirements Regulations, Corporate Governance Regulations and the Financial Services and Markets Act 2022. Its powers include approving exchanges and clearing houses, reviewing rule amendments, inspecting books, investigating breaches and imposing warnings, fines, reprimands, suspensions, licence revocations and prohibition orders.

1.3.2 Singapore Exchange Limited (SGX) SGX is an integrated multi-asset market infrastructure providing listing, trading, clearing, settlement, depository and market-data services. Its regulatory approach is guided by: (1) disclosure-based regulation; (2) comprehensive risk management; (3) risk-based targeting; (4) balanced international best practice; (5) transparency; and (6) SGX as frontline regulator while managing regulatory conflict under MAS oversight.

1.3.3 SGX-ST SGX Securities Trading is the approved securities exchange; it manages day-to-day securities-market regulation, membership, trading requirements and discipline. Mainboard is for established issuers and has quantitative entry requirements. Catalyst is for smaller or fast-growing issuers, uses a sponsor-supervised model and has no minimum quantitative entry test. The SGX-ST Listing Manual governs listing, acquisitions, realisations, takeovers and timely disclosure.

1.3.4 CDP The Central Depository provides integrated clearing, settlement and depository facilities for equities, fixed income and funds. It holds book-entry securities as bare trustee, immobilises securities and uses a nominated custodian for physical certificates. SGX trades settle on T+2; a 2021 intraday settlement run allows earlier settlement and reduces counterparty risk. Direct CDP account holders should link their trading accounts.

- Pre-Settlement Matching Service: automates the matching of settlement instructions, reducing manual error and settlement failure.
- Settlement: delivery versus payment (DVP) settles payment against delivery through CDP; free of payment (FOP) settles cash outside CDP. The CDP Clearing, Depository and Settlement Rules apply.

1.3.5 SGX-DT SGX Derivatives Trading (est. 1978) operates a futures market for commodity and financial underlyings — interest rates, equity and equity indices, and energy. Its Futures Trading Rules govern members and trading/settlement conduct.

1.3.6 SGX-DC SGX Derivatives Clearing clears products traded on SGX-DT and OTC commodity and financial derivatives registered through the SGX Titan OTC platform. It is a Qualifying Central Counterparty, which can reduce Basel III capital costs for members and banking-group participants. The SGX-DC Clearing Rules govern clearing members.

1.3.7 SGX RegCo SGX RegCo, an independent regulatory subsidiary created in 2017, has its own board and separates frontline regulatory functions from SGX's commercial and operating activities.

1.4 SGX listing framework

1.4.1 Listing process An issuer appoints a CMS corporate-finance issue manager or adviser plus professional advisers (lawyers, accountants). The process: preparation and due diligence; submission of listing documents; SGX-ST review, with MAS/SGX prospectus review where a prospectus is involved; public exposure; registration; launch; allocation; and commencement of trading.

1.4.2 IPO timeline

- Mainboard: Section A review commonly about four to six weeks; then Section B/prospectus review, any research blackout, public exposure on MAS OPERA for at least seven calendar days, registration/launch and listing.
- Catalyst: the sponsor submits a pre-admission notification; SGX-ST reviews it (indicative two to four weeks); the listing application and offer document are lodged; the offer document is exposed for public comment (indicative two weeks); registration/launch (indicative one to two weeks); trading commences.

1.4.3 Listing methods and GDRs

- Primary listing: the issuer meets the initial listing requirements and, after listing, the continuing obligations.
- Secondary listing: an issuer already listed on an acceptable home exchange may list on SGX-ST Mainboard, generally continuing to comply with its home exchange and home-jurisdiction law while making simultaneous disclosures to SGX-ST.
- Global Depositary Receipts (GDRs): may be listed on Mainboard by an overseas-listed company; specialist products for institutional and accredited investors. Information released to the home exchange must also be provided to SGX-ST in English.

1.4.4 IPO or introduction An IPO offers new and/or existing shares to the public under a prospectus lodged with MAS. An introduction involves no public share offer and suits an issuer that needs no capital at listing; an introductory document is submitted to SGX-ST and is not exposed for public comment like a prospectus.

1.4.5 Mainboard admission requirements An IPO applicant generally satisfies one of three quantitative tests:

1. at least S\$30 million consolidated pre-tax profit for the latest financial year and at least three years' operating track record;
2. profit in the latest financial year, market capitalisation of at least S\$150 million and at least three years' operating track record; or
3. operating revenue in the latest completed financial year and market capitalisation of at least S\$300 million (REITs and business trusts without historical financials may use this route if they can demonstrate immediate operating revenue).

The applicant should be financially healthy, with positive operating cash flow considered; debts owed to the group by directors, substantial shareholders and controlled companies should be settled before listing. Mining, oil and gas issuers have special market-capitalisation, reserves, working-capital, independent-qualified-person and independent-director requirements. Shareholder-spread, independent-director, promoter-moratorium, prospectus, accounting-standard, domicile, currency and continuing-obligation requirements also apply — including 25% public shareholding and at least 500 shareholders for issuers below S\$300 million market capitalisation, at least two independent directors, Singapore-resident independent directors for foreign issuers, and promoter moratoria tied to the profit or market-capitalisation test.

1.4.6 Catalyst listing Catalyst permits only a primary listing and requires an SGX-authorized full sponsor. There is no minimum quantitative entry test; the sponsor decides suitability, and SGX-ST may impose conditions, delay or refuse admission. A continuing sponsor must be retained throughout the listing.

Key criteria: 15% of post-invitation share capital in public hands, at least 200 shareholders, at least two independent directors, and at least one Singapore-resident independent director for a foreign issuer. Mining, oil and gas applicants must substantiate resources and maintain sufficient working capital. Offer documents are lodged on Catalodge, follow prospectus-style disclosure including SFA liability provisions, and are exposed for at least 14 days.

Mainboard vs Catalyst: Mainboard is for established companies, is exchange-regulated and has quantitative admission tests; Catalyst is for fast-growing companies, is sponsor-supervised and has no quantitative admission test.

1.4.7 Continuing obligations Mainboard and Catalist issuers have broadly similar continuing obligations: material disclosure, periodic reporting, additional share issues, corporate transactions, corporate governance, interested-person transactions and free-float requirements.

1.4.8 Sponsors Sponsors must remain eligible, seek SGX advice on issues affecting market integrity, maintain adequate systems and registered professionals, act independently and professionally, maintain regular contact, use qualified specialists where necessary and avoid conflicts. SGX reviews sponsor due diligence, continuing activities and breaches, and may reprimand, require education or rectification, impose conditions, or suspend sponsors and registered professionals.

1.4.9 Listed and quoted “Listed” means appearing on SGX-ST’s official list. “Quoted” may mean trading on an OTC quotation platform without being listed and without the full listing/continuing-obligation framework.

1.4.10 Disclosure and SGXNet Listed issuers must disclose material information via SGXNet, including information about subsidiaries and associated companies where needed to avoid a false market or inform investment decisions.

1.4.11 Meetings and voting Shareholders receive meeting notices — normally 14 days for ordinary resolutions and 21 days for special resolutions — and may attend or appoint proxies; resolutions are voted by poll.

1.4.12 Enforcement SGX may warn, fine by composition, require education or independent reviews, require remediation, suspend an issue manager or trading, or remove an issuer from the official list.

1.4.13 Debt securities SGX-ST may list fixed- and floating-rate bonds, convertible/exchangeable and covered bonds, asset-backed securities, loan participation notes and hybrid capital securities. Issuer, trustee/trust-deed, offering-document, fee and continuing-obligation requirements apply.

1.4.14 SPACs The SPAC framework introduced a listing vehicle that raises IPO capital to acquire an operating business or assets through a merger, share exchange or similar combination. At IPO a SPAC has no operating history or revenue-generating business, so information about the target develops when a proposed business combination is announced.

Exam cues

- Mainboard vs Catalist: S\$30m profit / S\$150m or S\$300m market cap with 500 shareholders vs no quantitative test, 200 shareholders and sponsor supervision. Catalist is primary listing only.
- Numbers that decide questions: T+2 settlement; 25% public float (Mainboard below S\$300m) and 15% (Catalist); 14 days ordinary and 21 days special meeting notice; OPERA exposure of at least 7 days (Mainboard) and 14 days (Catalist).
- Primary vs secondary listing: a secondary listing continues to comply with its home exchange.
- GDRs: Mainboard only; institutional and accredited investors; English disclosure to SGX-ST.
- IPO vs introduction: an introduction raises no public capital and has no prospectus exposure.

Chapter 2 — Licensing and business operations

How a firm becomes and stays licensed, how representatives are registered, and the controls around advertising, customer accounts, privacy, records and customer money. The examination tests who needs what licence, which assessment applies to which account, and the notification clocks.

2.1 Introduction

CMS licence holders are licensed under the SFA. Corporations need a licence for regulated activities unless exempt; individuals acting for a holder must be appointed, provisional or temporary representatives unless exempt. Licensing exists to secure confidence, stability, professional conduct, adequate resources, competent representatives and controls proportionate to the business.

2.2 Grant of a CMS licence

2.2.1 Base capital requirements For securities, CIS units and exchange-traded derivatives the common BCR categories are:

Entity	BCR
Clearing member	S\$5 million
Trading member	S\$1 million
Non-member	S\$1 million
Introducing broker	S\$500,000
Other eligible firms	S\$50,000

If more than one BCR applies, the highest applicable amount is required; exchange rules may impose a higher figure.

2.2.2 Applicant criteria The applicant should be primarily engaged in one or more regulated activities, operate from a physical Singapore office, and be able to discharge its duties efficiently, honestly and fairly. MAS considers reputation, at least five years' relevant track record, home supervision, and the fit-and-proper status of the applicant, its holding and related companies, officers, employees, representatives and substantial shareholders.

2.2.3 Management criteria The board needs at least two members and at least one resident in Singapore; the CEO should be Singapore-resident. MAS approval is required for relevant CEO and director appointments. The firm should employ at least two full-time representatives for each regulated activity.

2.2.4 Change of particulars MAS must be informed within 14 days of changes to the firm's name, principal place of business, regulated activities/products, trading name or other prescribed particulars, or of the cessation of a regulated activity.

2.2.5 Lapse, revocation and suspension A licence lapses on winding-up/dissolution or a prescribed event. MAS may revoke or suspend it where the firm or its people fail to act efficiently, honestly and fairly, fail to act in customers' best interests, or breach licence conditions. Continuing to operate after lapse, suspension or revocation is a serious offence.

2.2.6 Approvals MAS prior approval is required for CEO and director appointments, and directors and CEOs must remain fit and proper.

2.2.7 Duties of CMS licence holders Maintain written operating, financial, accounting, compliance and internal-audit policies; identify, address and monitor risks; audit compliance with law and exchange/clearing-house rules; set written limits for discretionary powers; document monitoring; ensure accurate and complete reports; segregate duties; maintain qualified representatives and an examination/exemption register; and report representative misconduct within 14 days of discovery.

2.3 Registration of representatives

2.3.1 Notification and the one-principal rule An individual may conduct a regulated activity only after the relevant notification/registration as an appointed, provisional or temporary representative, or under an exemption. A representative may act for one principal only unless MAS permits more or the principals are related corporations.

2.3.2 Competency requirements The representative must satisfy education, relevant work-experience, CMFAS and fit-and-proper requirements.

2.3.3 Due diligence The principal should verify identity and work authorisation, conduct reference and public-register checks, review regulatory/criminal/disciplinary history, and check financial soundness, bankruptcy, credit status and relevant CPF obligations for self-employed persons.

2.3.4 Representative Notification Framework and RNF The Representative Notification Framework allows electronic notification. The RNF number stays with the individual when changing principals.

2.3.5 Public register The public register shows permitted activities, recent principals and formal MAS action. MAS considers seriousness, relevance and time elapsed when refusing, revoking or suspending registration.

2.3.6 Cessation of status Status can cease when the principal notifies MAS, the person stops acting for one month, MAS revokes it, the principal ceases the activity, or the principal's licence lapses/revokes/is prohibited. Provisional status is limited to three months; temporary appointments are limited to the permitted short-term periods. A representative reports changes to the principal within seven days, and the principal reports to MAS within 14 days.

2.3.7 Continuing education Continuing education should cover ethics, market conduct, products, compliance and other relevant skills, with minimum core and supplementary CPD expectations.

2.4 Advertising

Product advertisements must not be false or misleading; must be fair and balanced, clear and legible; must meet electronic-font requirements; must carry the statement "This advertisement has not been reviewed by the Monetary Authority of Singapore"; and must receive documented written approval before publication.

Non-product advertisements must not be false or misleading, must not promise a supposedly free service unless it is genuinely free without conditions, and must not exaggerate in a way that exploits inexperience.

2.5 Customer accounts and SIPs

Before trading, the firm completes account opening, documentation, suitability/risk profiling and any required Customer Account Review (CAR) or Customer Knowledge Assessment (CKA).

	Listed SIP	Unlisted SIP
Assessment	CAR	CKA
Knowledge/experience in	derivatives or listed SIPs	the particular unlisted SIP
Validity	3 years (subject to transaction-continuity rule)	1 year (positive CKA)

- A relevant diploma, professional finance qualification, six qualifying transactions in the preceding three years, or three consecutive years of relevant experience in the preceding ten years may satisfy the assessment; a prescribed independent learning module may help.
- Senior management or designated personnel independent of the account-opening process must approve a SIP account.

- A customer may request advice at any time. For unlisted SIPs the firm should offer advice; if declined, obtain written confirmation and explain the customer's responsibility for suitability.
- If the customer lacks knowledge/experience, notify him in writing. For a listed SIP, obtain written confirmation of intent to proceed, explain general features and risks in writing, and state the customer is responsible for understanding the products. For an unlisted SIP, the firm cannot transact unless it is also an exempt financial adviser providing the required advisory service.
- Keep profile, education, work/investment experience, assessment, outcome, approval and relevant trade communications; update profiles at least annually.

Overseas-listed investment products: provide the risk-warning statement and obtain acknowledgement before the first relevant transaction. Risks include different investor protection, laws and redress, tax and currency exposure, additional costs, counterparty/correspondent-broker default and political/economic/social developments. Retain the acknowledgement for at least five years. Without a reliable EIP-classification system the product is treated as a SIP and CAR applies; outsourced classification remains the CMS holder's responsibility.

2.6 Privacy of customer information

Customer and order information is confidential. Banking Act s.47 permits disclosure only in specified circumstances — customer consent, operational/risk-management or audit needs, or legal/regulatory investigation. An order may be disclosed only when needed to execute it, permitted by market/clearing rules, or required by MAS. PDPA requires disciplined collection, use, accuracy, storage and disclosure of personal data. Check the Do Not Call Registry before marketing calls and obtain clear, unambiguous consent.

2.7 Managing trading accounts

Open the account, obtain legal documents, complete suitability and risk profiling, and keep trading within the customer's profile.

2.7.1 Contract notes Issue a contract note by the next business day after a purchase or sale, or by the next business day after a required late detail becomes available. It should identify: firm and address; principal/dealing-against-customer status where relevant; customer; date; product and quantity; price; consideration; adjustments; commission; and taxes/duties. Overseas transactions may follow the overseas exchange's requirements. Maintain channels for discrepancy reports and complaints.

2.7.2 Statements Monthly statements show transactions and prices, derivatives/spot-FX positions and marked-to-market unrealised P&L, custody assets and collateral, asset movements and reasons, money movement/balance, and charges/credits.

A monthly statement is not required where...

CDP/clearing-house information already supplies it

there has been no account change

an eligible non-retail customer uses agreed real-time electronic statements or requests non-receipt in writing

If the last month of a calendar quarter has no monthly statement, send a quarterly statement with the same information.

2.8 Books and audit trails

Keep books and transaction records in English for at least five years, in a form permitting proper audit and true/fair financial statements. Records cover customer and guarantor details, authorised traders, customer assets and custody movements, powers of attorney, agreements, risk disclosures, acknowledgements, account-opening documents, orders, advertisements and advice, ledgers/invoices, transaction confirmations, proprietary transactions, income/expenses, liabilities, assets, OTC transactions, and underwriting/placement allotment bases (the list is not exhaustive).

Appoint an auditor and lodge annual accounts, balance sheet and auditor's report with MAS within five months of the financial year-end. The auditor must immediately report material financial deterioration, SFA contraventions/fraud or irregularities affecting customer money/assets, with a copy to an approved exchange where relevant. Destroying, concealing, altering or sending books/assets out of Singapore to obstruct examination or audit is an offence; reasonable precautions must prevent falsification.

2.9 Customer money and assets

2.9.1 Customer money — definition Customer money generally includes funds received for purchases/sales, holding products, maintaining trading accounts, product financing, fund management or the firm's business — subject to exclusions such as amounts already directed to repay the customer's debt, pay the customer/another entitled person, pay proper charges, or certain institutional OTC transactions.

2.9.2 Customer money — segregation and permitted use Treat customer money as belonging to the customer.

- Retail customer money for OTC derivatives: must be segregated in trust.
- Other retail and non-retail money: placed in a permitted trust/segregated account or an account directed by the customer under the rules.
- Deposit by the next business day. Do not commingle with firm money or use it for another person's margin, guarantee or credit.
- Permitted institutions: licensed banks, merchant banks and finance companies; certain foreign-currency deposits may be placed with an authorised foreign custodian with prior written consent.
- Disclose trust-account arrangements, commingling, insolvency consequences, clearing-house placements and foreign-jurisdiction risks to retail customers. Perform initial and periodic due diligence on the institution and obtain its written acknowledgement that the money is held on trust, separately designated and not subject to set-off for the firm's debt.
- Customer money may be placed with clearing houses/members to facilitate positions or invested in permitted government securities/debt instruments. Interest and returns belong to customers, except the firm may retain returns on its own money advanced to maintain the account.
- Withdrawals are limited to entitled payments, customer obligations, proper charges, written directions (with the retail exception), reimbursement of advances without creating underfunding, clearing/investment purposes, or lawfully authorised purposes.

2.9.3 Customer assets Customer assets are beneficially owned securities and assets other than money, subject to the institutional OTC carve-out. Deposit them in a custody account on trust, separately from firm assets, normally by the next business day. Permitted custodians include banks, merchant banks, finance companies, depository agents, approved trustees and licensed custodians; a foreign custodian requires prior written consent. Disclose commingling, insolvency and foreign-law risks; obtain the custodian's written acknowledgement and conduct initial and periodic suitability due diligence.

- Customer agreements must explain instructions, authority, liens/security interests, collateral realisation, custodian default, commingling records, registration, income/entitlements, information and fees.
- Custody agreements must require separate identification, restrict liens and withdrawals, and provide records, entitlement procedures, custodian liability and fees.
- Lending specified products requires risk explanation and written consent for retail/non-exempt customers, plus agreements.
- A mortgage/charge/pledge/hypothecation must not exceed the amount owed; retail customers require disclosure, risk explanation and written consent.
- Withdrawals are allowed only for entitled delivery, customer obligations, written instructions, specified-product lending, lawful collateralisation, clearing-house purposes or law.

Exam cues

- BCR: memorise the five tiers (\$5m / \$1m / \$1m / \$500k / \$50k); where more than one applies, take the highest.

- Clocks: 14 days for licence-particular changes, representative reporting and misconduct reports; 7 days for a representative to inform the principal; 3 months provisional; 1 month cessation trigger.
- SIP accounts: listed → CAR (3 years); unlisted → CKA (1 year); six transactions in three years or three years in ten; approval independent of account opening.
- One principal only (unless related corporations or MAS permits).
- Customer money vs customer assets: money is segregated in trust; assets sit in a custody account on trust; both by the next business day.
- Trap: a written disclaimer or risk acknowledgement does not remove the firm's SFA/FAA liability, and outsourced EIP classification remains the CMS holder's responsibility.

Chapter 3 — Market conduct

The prohibitions that keep markets fair, efficient, orderly and transparent. The examination tests which provision catches which behaviour, and the extraterritorial reach of the rules.

3.1 Scope

Market conduct rules apply to acts in Singapore involving products listed or quoted inside or outside Singapore, and to acts outside Singapore involving products listed or quoted on a Singapore organised market. This extraterritorial reach is a frequent examination point.

3.2 Objective

The rules protect fair, efficient, orderly and transparent markets — the same objective the anti-manipulation, disclosure and insider-trading provisions enforce from different angles.

3.3 False trading and market rigging

Prohibited conduct includes creating an appearance of active trading, buying and selling without changing beneficial ownership, acting recklessly in a way likely to create a false or misleading market appearance, and transactions intended to mislead about price or market activity. A wash sale is a transaction with no real change in beneficial ownership. Matching orders are coordinated buy/sell orders entered with knowledge of the other side to create a false market.

3.4 Securities-market manipulation

It is prohibited to effect two or more transactions in securities or securities-based derivatives that raise, lower, maintain or stabilise price with the intention of inducing others to trade. Trading through several customer accounts or using fictitious orders to support a price can be manipulative.

3.5 False or misleading statements and information

It is prohibited to disseminate materially false or misleading information likely to induce subscription, buying or selling, or raise/lower/maintain/stabilise a price, where the person knows or should know it is false or is reckless as to truth. The medium may be research, newsletters, electronic communications, media or word of mouth.

3.6 Fraudulently inducing dealing

A person must not induce or attempt to induce dealing through a knowingly misleading/false/deceptive statement, dishonest concealment of a material fact, reckless publication, or storing/recording materially false information.

3.7 Manipulative and deceptive devices

Section 201 is a broad anti-fraud rule. It covers schemes or devices to defraud, practices likely to operate as fraud or deception, materially false statements, and omissions of material facts needed to make statements non-misleading. Spoofing-like conduct in a pre-open or pre-close phase—placing large orders with no intention to execute and cancelling them to move the price—is the type of conduct the section captures.

3.8 Dissemination of information about illegal transactions

It is an offence to circulate information that a price will rise, fall or be maintained because of an illegal transaction. An illegal transaction includes false trading, rigging, manipulation, false statements, fraudulent inducement and deceptive devices. Liability may arise where the person or an associate entered or purported to enter the illegal transaction, or received/expected a benefit for circulating the information.

3.9 Insider trading

Inside information is information that is not generally available, would be likely to materially affect price or value, and would influence persons who commonly invest. Generally available information is observable; publicised in a way likely to reach investors with a reasonable dissemination period elapsed; or a reasonable deduction/inference from such information.

- Connected persons include officers, substantial shareholders, and people whose professional/business relationship gives access to price-sensitive information — lawyers, accountants, bankers, investment bankers, public-relations advisers, consultants and transaction counterparties. Possession of non-public information and the statutory presumptions are central.
- Non-connected persons may still be liable if they know the information is non-public and price-sensitive — regardless of the source and regardless of any intention not to use it.
- Persons must not trade, procure another to trade, or communicate the information to facilitate trading.

Exceptions/defences: specified CIS redemptions; underwriter activity; legally required transactions or communications; corporate/partnership knowledge rules where Chinese walls apply; a person's own transaction knowledge; corporate own-transaction knowledge; parity of information; and the broker-dealer exception (instruction unsolicited, no advice given, principal not an associate). If unsure, stop and consult compliance.

3.10 Securities hawking

Securities hawking is offering securities, securities-based derivatives or CIS units in an unsolicited meeting. It is designed to prevent pressure selling and “boiler-room” practices. The prohibition does not apply in the same way to qualifying offers to institutional or accredited investors and certain products not requiring a prospectus.

3.11 Other market conduct rules

- Short selling: a covered short sale has borrowed or arranged delivery; an uncovered/naked short sale does not. Short selling can improve liquidity and price formation but can increase volatility and settlement risk. CDP may conduct buying-in and charge purchase cost plus the applicable penalty for failed delivery.
- Marking sell orders: a seller must identify a short-sale order and quantity/value before or when placing it. If an order is partly owned and partly short, split and mark the relevant portions. SGX publishes aggregated short-sale information.
- Short positions: when a net short position crosses the MAS threshold, report identity/business information, position and changes.
- Specified-product borrowing/lending: collateral must generally be at least 100% of market value, marked to market daily, and the agreement must cover capacity (agent/principal), title transfer, collateral, corporate actions, valuation/margin shortfalls, return, termination/default, fees, governing law and jurisdiction. Explain risks and obtain written understanding for non-exempt customers; exemptions can apply for accredited, expert and institutional investors.

3.12 Penalties

Market misconduct may result in criminal fines/imprisonment, civil penalties, compensation for other participants' losses, licence suspension/revocation, disciplinary action and reputational damage. Learn the categories and consequences — the amount of a penalty is not tested.

Exam cues

- Extraterritorial reach: acts in Singapore on foreign-listed products, and acts abroad on Singapore-listed products, are both caught.
- Intent separates the provisions: manipulation needs intention to induce trading; false trading may be reckless; section 201 is the broad anti-fraud catch-all.
- Insider trading: connected vs non-connected. A non-connected person can be liable merely knowing the information is non-public and price-sensitive, even without intent to use it.
- Generally available requires a reasonable dissemination period to have elapsed.
- Hawking targets the unsolicited meeting; qualifying offers to institutional/accredited investors are outside it.
- Trap: the private or public nature of the information — not the source — decides non-connected liability.

Chapter 4 — Ethics, codes and standards for securities dealing

Ethics as the standard above the legal minimum. The examination tests the client-centred framework, the ethical threats, and the six-step resolution process.

4.1 Ethics and importance

Ethics are the moral principles or rules guiding behaviour when it affects others. Ethics goes beyond the law: it is doing the right thing even when no one is watching. Ethical failure damages the individual, the firm, market confidence and the wider financial ecosystem; interconnected markets let harm spread across borders.

4.2 Ethical framework

The framework is a client-centred cycle:

1. Understand products/services: know features, risks and suitability.
2. Analyse risks objectively and independently: consider client risk tolerance and financial capacity.
3. Execute solutions quickly, fairly and transparently.
4. Serve customers with honesty and integrity.
5. Safeguard the firm's reputation and market integrity.

Unethical behaviour can be driven by client pressure, weak knowledge/supervision, personal financial or status incentives, or peer/senior pressure. Six preparation steps are: put clients first; emphasise integrity, competence, diligence and respect; exercise care and independent judgement; build trust and observe market conduct; dis-associate from a problematic deal; and seek compliance/legal guidance.

4.3 Ethical dilemmas

An ethical dilemma is a conflict between a proposed action and ethical standards, rules or professional obligations. Key threats are self-interest, self-review and influence. Identify facts before assumptions and do not let sales targets convert an unsuitable product into a recommendation.

4.4 Professional ethics and standards

Core principles are integrity, competence, diligence and respect; putting profession/client interests above personal interests; reasonable care and independent judgement; conduct that reflects credit on the profession; promotion of market integrity; and continuing competence.

4.4.1.1 Professionalism Know and follow applicable law, including SFA/FAA requirements and exchange rules; maintain independence/objectivity; do not misrepresent; do not engage in dishonest, fraudulent or deceptive misconduct; and maintain competence. Gifts, benefits, compensation and pressure must not compromise judgement.

4.4.1.2 Integrity of capital markets Do not trade or induce others to trade on material non-public information. Typical information includes earnings, mergers, asset-quality changes, new business/licences, management changes, qualified audit opinions, disputes, bankruptcy, regulatory breaches and credit-rating changes.

4.4.1.3 Duties to clients Act with loyalty, prudence and care; deal fairly; make suitable recommendations based on reasonable inquiries into objectives, financial situation, needs, risk appetite and total portfolio; present fair, accurate and complete performance information with valuation basis and sources; and preserve confidentiality unless illegal activity, law or client permission permits disclosure. Execution-related advice on listed EIPs requires rationale and prescribed disclosure; broader advice may require FAA appointment.

4.4.1.4 Duties to employers Be loyal, protect confidential information and firm opportunities, follow the code of conduct and remain fit and proper. Employers should provide clear policies, training, balanced remuneration and whistleblowing channels. Representatives must not solicit former clients or take client lists, trade secrets or confidential material without permission. Additional compensation that conflicts with the employer requires written consent. Supervisors must make reasonable efforts to ensure subordinates comply; whistleblowing is expected where silence could imply collusion.

4.4.1.5 Investment analysis, recommendations and actions Use diligence, independence and thorough research; have a reasonable basis; retain supporting records; explain the investment process, material changes, limitations, risks, important factors, costs and the distinction between fact and opinion. Communications through email, mobile, blogs and other media must comply with firm controls.

4.4.1.6 Conflicts of interest Avoid conflicts or make full, fair, prominent and plain-language disclosure. Examples include personal/proprietary positions, family interests, cross-department information, ownership of stock, outside directorships and multiple-principal activity. Refrain from deciding when conflicted and escalate independently. Give client trades priority over personal trades and do not negotiate private referral fees outside approved arrangements.

4.4.2 Compliance procedures Use Chinese walls and segregate sales, dealing, research, proprietary, risk, compliance and audit functions. Resist undue influence from issuers or sponsors and control gifts/entertainment. Protect research integrity through objective analysis, personal-investment policies, restricted lists and compensation that does not reward compromised opinions.

4.5 Resolving ethical dilemmas

Use a six-step process: gather facts; identify ethical/regulatory issues; identify affected parties and conflicts; consult internal reporting/whistleblowing procedures; evaluate alternatives; implement the best action, monitor and document the reasoning. Documentation proves what was known, what was considered and why the action was reasonable.

Exam cues

- The framework is client-centred and ordered: understand products → analyse risks objectively → execute quickly, fairly and transparently → serve with honesty and integrity → safeguard reputation and market integrity.
- Three threats: self-interest, self-review and influence.

- Six preparation steps: clients first; integrity, competence, diligence and respect; care and independent judgement; trust and market conduct; disassociate from a problematic deal; seek compliance/legal guidance.
- Conflicts: avoid, or disclose fully and prominently; do not decide while conflicted. Chinese walls segregate sales, dealing, research, proprietary, risk, compliance and audit.
- Trap: disclosure is not a licence — a conflict must still be controlled or avoided.

Chapter 5 — Securities dealing practices and skills

How a representative onboards, profiles, classifies and services a client, and the conduct standards — best execution and internal controls — that apply to the trading itself.

5.1 Onboarding

Onboarding combines AML/CFT KYC with investment profiling. Gather identity/background, objectives, experience, financial capacity, employment/retirement status, structures and investment horizon. Use simplified CDD only for genuinely low-risk cases; use EDD for high-risk clients such as PEPs, high-risk businesses and opaque structures.

5.2 Investor categories and profiling

Category	Who
Accredited investor (AI)	individuals meeting prescribed net-asset, financial-asset or income thresholds; entities/trusts/partners
Institutional investor (II)	governments/statutory bodies, central banks, licensed banks/merchant banks/finance companies/investors
Expert investor (EI)	persons whose business involves acquiring, disposing of or holding capital markets products; professional investors
Retail investor	everyone else

Correct classification affects disclosure, product access, SIP rules and exemptions. A risk profile should normally be independently reviewed under a four-eyes principle and explained to the client. Do not simply raise a risk rating because the client wants a riskier product; document any disagreement and advice. Consider mental capacity and coercion.

Before advice, obtain investment objectives, financial situation and needs. If the customer rejects the recommendation, document the decision and warn that the advice did not take those factors into account. Keep records, normally at least five years as good practice. Conflicts need not be repeated only while the prior disclosure remains accurate, complete and reasonably known; disclose again if stale or uncertain. A disclaimer cannot remove SFA/FAA liabilities.

5.3 Coherent investment/trading strategies

Explain the portfolio mix, asset classes, products, geographies, percentages and reasons for inclusion, and document why it matches the risk profile. Periodically report performance, explain variances and explain proposed strategy changes and time horizons.

5.4 Best execution

Best execution means reasonable steps to obtain the most advantageous overall result, considering price, costs, speed, likelihood of execution and settlement, size, execution quality and the client's instruction. Written policies must provide best available terms and priority by time of receipt for comparable orders. Do not receive Payment for Order Flow. Monitor policy effectiveness and clearly disclose it.

Consider speed/likelihood in volatile markets, price improvement and total costs, size/liquidity, overall execution quality, client-specific instructions, all factors holistically, monitoring and written customer disclosure. Specific instructions govern specified parameters; unclear parameters are filled using best-execution principles. An agent

executes under mandate; a principal trades on own behalf and must agree the trade. Cross trades must be in the best interests of both clients and never between staff personal and client accounts. Do not permit late trading in CISs. Quotes must be firm unless qualified; do not make frivolous quotes or park positions to conceal profit/loss. Only authorised staff should deal in FX/NDFs; off-market rollovers are a fraud risk.

5.5 Risk management and internal controls

The board/senior management should approve proportionate policies, review them, maintain ethical codes, segregate duties, mark positions to market, report exposures/P&L at least daily, protect premises and systems, use independent valuation, reconcile independently, record calls/instructions, promptly confirm orders, validate settlement instructions and use stress testing, liquidity projections, margin and credit limits. Controls should cover suitability/risk disclosure, CDD, records, MIS, margin calls, liquidity, access, valuation, reconciliation, trade confirmation, funds transfers and escalation of unsuitable trades.

5.6 Account types

- Personal: cash or margin; check funding, margin, authorised instructions and POA; death can trigger probate.
- Joint: clarify who may operate the account, mandates and joint liability; credit and dispute risks increase and death may freeze assets.
- Personal investment holding company: verify mandates, authorised operators, objectives, asset classes, geographies and portfolio restrictions.
- Trust: obtain the trust deed and identify trustee powers and authorised instructing parties.
- Corporate/institutional: verify board resolutions and authorised contacts, mandates and UBOs. Offshore SPVs require enhanced diligence, source-of-wealth/funds review, tax-residency/FATCA/AEOI information and careful tracing of ownership.

5.7 Trust-based client relationship

Stay current on rules/products, communicate risk and costs, document, understand product/originator reputation, respect objectives, disclose conflicts, prioritise clients and seek best price. Relationship management is continuous; update KYC and financial circumstances, review discrepancies and communicate material facts, process, limitations, critical factors, fact/opinion distinction and records.

5.8 Credit risk

Credit risk is loss when a counterparty cannot perform. Set credit strategy and limits by customer/group, industry, geography and risk tolerance. Assess financial capacity, repayment, credit history and collateral. Monitor margin and exposures; call for top-ups or liquidate under the agreement if collateral falls below threshold, and consider legal action if defaults continue.

Exam cues

- Classification changes protection: retail gets the highest protection; AI/II/EI relax disclosure, product access, SIP rules and exemptions.
- Best execution is the most advantageous overall result — price, costs, speed, likelihood of execution and settlement, size, execution quality, and the client's instruction. Never receive Payment for Order Flow.
- Agent vs principal: an agent executes under mandate; a principal trades on its own behalf and must agree the trade. Cross trades must benefit both clients and never mix staff personal with client accounts.
- Four-eyes review of the risk profile; specific client instructions override best-execution parameters for those parameters only.
- Trap: a disclaimer does not remove SFA/FAA liability; conflicts must be controlled, not merely disclosed.

Chapter 6 — CPF Investment Scheme (CPFIS)

Using CPF savings to invest. The examination tests the OA/SA distinction, the investment account, the thresholds and limits, and what happens at 55, on bankruptcy and on death.

6.1 Structure

CPFIS-OA uses Ordinary Account money and requires a CPF Investment Account. CPFIS-SA uses Special Account money and does not require that investment account.

6.2 History

CPFIS began with OA investing in 1987 and expanded to SA in 2001.

6.3 Investment account

An agent bank — DBS, OCBC or UOB — holds the CPFIS-OA investment account for settlement and holdings; a member may have only one.

6.4 Eligibility

Age 18 or older, not an undischarged bankrupt, and exceeding the OA/SA thresholds. Only OA money above S\$20,000 and SA money above S\$40,000 is generally investible, so the first S\$60,000 earns additional interest; permitted regular-premium insurance and agent-bank fees are treated separately.

6.5 Application process

New investors must complete the Self-Awareness Questionnaire (SAQ). Bring identity documents, SAQ status and CPF statement. Inform the dealer of account details before trading.

6.6 Short-term sale of a qualifying purchase

A qualifying SGX-listed CPFIS-OA purchase may be sold one trading day later if entered successfully and sufficient funds/limits exist.

6.7 Service providers

Product	Route
Fixed deposits	included banks
Government bonds/T-bills, statutory-board bonds	permitted bond dealers/brokers
Guaranteed bonds	brokers
Annuities/endowments/ILPs	included insurers
Unit trusts	fund managers/administrators
Fund-management accounts	approved fund managers
Shares, property funds, corporate bonds, ETFs	brokers
Gold ETFs / other gold products	brokers / the permitted agent-bank route (currently UOB)

6.8 Product inclusion criteria

Products generally require provider application and CPF Board review. Investments must normally be in Singapore dollars and cannot be assigned, pledged or used as collateral. Criteria cover included banks and credit quality; scripless SGD government securities; Mainboard listing and disclosure for statutory-board/government-guaranteed/corporate bonds; life-insured and maturity restrictions for insurance; fund-manager eligibility and

peer/expense/track-record requirements for unit trusts; SGX listing/physical replication/tracking/expense requirements for ETFs; Singapore incorporation/Mainboard/proxy rights/watch-list restrictions for shares and property funds; credit ratings and disclosure for corporate bonds; and physical-gold/backing/proxy requirements for gold ETFs.

OA investment limits: up to 35% of investable savings for shares, property funds/REITs and corporate bonds; up to 10% for gold products. SA permits specified lower-risk products and selected ILPs/unit trusts/ETFs, subject to CPF classification.

6.9 Transfers

Members may transfer cash from the CPF Investment Account to OA. The bank automatically transfers cash if the account is inactive for two consecutive months, and unused IPO application money is returned.

6.10 Profits and losses

Dividends/profits remain in CPF and cannot be withdrawn as ordinary cash; losses do not need to be made good.

6.11 Charges

Charges may be paid from CPF savings. Sales charges were removed from October 2020 and the wrap-fee cap reduced to 0.4% after earlier reductions.

6.12 Release at age 55

Investment holdings/cash may be released subject to the required retirement sum — FRS, or BRS with sufficient property charge/pledge. Without the requirement, holdings remain within CPF and sale proceeds return to the relevant CPF account.

6.13 Bankruptcy

Undischarged bankrupts may hold or liquidate existing CPFIS investments but cannot make new investments; CPFIS assets remain protected from creditor/Official Assignee claims while within the scheme.

6.14 Death

CPFIS investments and OA investment-account cash form part of the estate and are not covered by CPF nomination. Insurance policies with valid revocable nominations may pay nominated beneficiaries directly; otherwise the administrator/executor needs Letters of Administration or Grant of Probate. Protection may cease after death and assets can meet creditor claims under probate law.

Exam cues

- OA vs SA: OA needs a CPF Investment Account; SA does not. Agent bank is one of DBS/OCBC/UOB and only one account.
- Numbers: S\$20,000 OA / S\$40,000 SA retention (first S\$60,000); 35% shares/property/REITs/corporate bonds; 10% gold; wrap-fee cap 0.4%; sales charges removed Oct 2020.
- No assignment, pledge or collateralisation of CPFIS investments.
- At 55: release only if the retirement sum (FRS, or BRS with property charge/pledge) is met.
- Death: CPFIS falls into the estate — CPF nomination does not cover it (unlike the CPF monies themselves).
- Trap: profits stay inside CPF (no ordinary cash), but losses need not be made good.

Chapter 7 — Prevention of financial crimes

The AML/CFT framework that applies to both modules — the offences, the laws, the risk-based approach, CDD/KYC and reporting. The examination tests the money-laundering stages, which statute applies, the CDD thresholds and the STR reporting duty.

7.1 Financial crime, ML, TF, sanctions and fraud

Financial crime includes money laundering, terrorism financing, embargoes/sanctions and fraud. CMLs must exercise due diligence on customers, persons acting for them, connected parties and beneficial owners; maintain high ethical standards; avoid business or transactions connected with ML/TF; and cooperate with law enforcement.

Money laundering disguises criminal proceeds as legitimate. The stages are placement (introducing benefits into the financial system), layering (creating transactions and asset conversions that obscure the trail) and integration (returning funds as apparently legitimate wealth). The stages may overlap or occur in a different order. Capital markets attract layering because assets are liquid, transferable and easily converted.

Terrorism financing may use illegal or legitimate sources — robbery, donations, publications, businesses or self-funding — and may involve small amounts, so third-party payments and transfers require care.

Embargoes and sanctions may target countries, named persons/entities, sectors or products. Shell companies, opaque ownership, bearer shares and multiple layers can conceal designated ultimate owners. CMLs must trace ownership/control to natural persons, screen lists, freeze and report designated assets and avoid prohibited transactions/services. Singapore implements UN sanctions through MAS regulations under FSMA 2022.

Fraud involves deception or dishonesty to gain an advantage at another's expense. Internal fraud can involve an employee selling client assets and diverting proceeds; external fraud can involve hacking or impersonation. Controls include independent verification, call-backs, dual controls, clean-desk and audit.

7.2 Singapore AML/CFT regime

Singapore follows FATF standards. MAS Notices and Guidelines place prevention responsibility on financial institutions and their staff. A risk-based approach requires controls commensurate with customer, country, product, service, transaction and delivery-channel risk.

7.3 Main laws

- Penal Code: general criminal offences.
- CDSA: criminalises dealing with, concealing, transferring, acquiring, possessing or using benefits of drug dealing/criminal conduct; covers assisting retention, reporting, production/search powers, tipping-off and record retention.
- MACMA: enables mutual assistance in cross-border investigations/proceedings.
- TSOFA: criminalises providing/collecting property for terrorist acts, providing property/services for terrorist purposes, using/possessing property for terrorist purposes and dealing with terrorist property; imposes reporting duties.

The CDSA framework also includes STR filing, statutory protection for good-faith reporting, five-year retention of financial transaction documents and compliance with production, restraint, charging and confiscation orders.

7.4 MAS notices and sanctions guidance

MAS Notice SFA 04-N02 and its Guidelines set CML obligations for CDD, risk management, controls, reporting and governance. Sanctions guidance requires enhanced attention to sanctioned countries/persons, correspondent banking and front companies, freezing/reporting, strong board oversight and effective detection.

7.5 Targeted financial sanctions

Financial institutions must immediately freeze designated funds/assets/economic resources, avoid financial transactions or assistance involving designated persons/items or sanctioned proliferation/nuclear activities, and notify MAS. Screen clients, connected parties and beneficial owners before onboarding and periodically. Current sanction lists must be checked rather than relying on an old list.

7.6 Tax crimes as predicate offences

Since 1 July 2013, specified direct and GST tax crimes are ML predicate offences. Direct-tax offences include false information or records to obtain PIC cash payouts/bonuses (Income Tax Act sections 37M(3), 37M(4)), tax evasion (section 96) and serious fraudulent tax evasion (section 96A). GST offences include tax evasion (section 62) and improperly obtaining refunds (section 63). CMIs must identify tax-related risk, conduct CDD/monitoring and file STRs where warranted.

7.7 Three lines of defence

1. First line — business units: identify, assess and control risk in onboarding, front office and operations.
2. Second line — compliance/AML-CFT and support functions: monitor, sample-test, review exceptions, advise and escalate to senior management/board, and liaise with authorities.
3. Third line — independent internal audit: periodically evaluate the framework, controls, alert parameters, training and remediation and report independently to the audit committee/board.

Board and senior management retain final accountability.

7.8 Governance

The board and senior management set risk appetite and tone, receive meaningful information about current/emerging risk, assess control effectiveness, understand legal developments, resource compliance, escalate weaknesses, monitor remediation and integrate AML/CFT effectiveness into performance and disciplinary decisions.

7.9 Client onboarding and KYC

Do not open anonymous or fictitious-name accounts. Collect identity, address/residency, age, employment, education, family/lifestyle, business, incorporation, financials, organisation, directors, shareholders, authorised persons, connected parties and UBO details. Investigate source of wealth/funds, business/income, political links, experience, objectives and risk appetite.

Use official identity documents, reliable databases, company records, financial statements, bank statements, trust deeds, board/trustee resolutions and certificates of incumbency/good standing. Internet, news and intermediaries may be leads but need corroboration. Where originals cannot be retained, record what was verified, the original's description, why no copy was possible, who verified it and the date.

Identify beneficial owners: generally individuals owning more than 25%; if unclear, persons exercising ultimate control; if none, natural persons with executive authority. For trusts/legal arrangements, identify settlor, trustee, protector, beneficiaries and persons with ultimate ownership/control. Certain listed/supervised institutions may qualify for a documented BO-identification exemption, but doubts or suspicion require full diligence.

Source-of-funds review asks whether funds are legitimate, unexpected, owned by the customer, consistent with wealth/profile, consistent with the business and linked to higher-risk jurisdictions. Risk scoring may consider PEP status, country, activity, wealth, flow-through, client visits, complexity, unusual services and origin/destination of funds. Higher-risk examples include personal holding companies, trusts, gambling, remittance, precious metals/diamonds and cash-intensive businesses. Complex structures need a business rationale, financial statements, site visits, screenings and periodic review.

Non-face-to-face relationships need controls as stringent as face-to-face: MyInfo where applicable, secure video/signatures/biometrics, independent call-backs, fraud controls and assessment of technology. Identity

should be verified before onboarding or a transaction exceeding S\$20,000; limited deferral may be used only for essential business continuity with close controls, completion as soon as practicable and the 30-business-day suspension and 120-business-day termination milestones.

Screen clients, agents, connected parties and UBOs before onboarding, after onboarding, periodically, after a transaction over S\$20,000 for a non-account client and when sanction lists or party information changes. Document results and use four-eyes review of alerts. A positive sanctions hit requires freezing/reporting, not merely monitoring.

Simplified CDD is limited to documented low-risk cases such as transparent listed companies, qualifying supervised financial institutions and Singapore government entities. It is unavailable where suspicion exists or high-risk jurisdiction/conditions apply. Reliance on another regulated institution does not remove the CMI's responsibility; third-party reliance is distinct from outsourcing, and ongoing monitoring cannot simply be delegated away.

For joint accounts, perform CDD on each holder. Aggregate linked/structured transactions where a customer appears to split a transaction to stay under S\$20,000. Existing clients, non-account holders and related transactions require proportionate CDD and reconstruction records. EDD applies to high-risk customers, PEPs, opaque/bearer-share structures, high-risk countries, unusual distance, cash-intensive businesses, anonymous products and unexplained third-party payments.

PEP controls include identification of Singapore and foreign PEPs, immediate family and close associates; senior-management approval; source-of-wealth/funds establishment; and enhanced ongoing monitoring. PDPA generally requires consent, but the Notice may permit collection/use/disclosure for AML/CFT purposes within the prescribed exceptions.

Retain client information for five years after termination and transaction records for five years after completion, in admissible paper/electronic/microfilm form. Preserve records longer or as directed where an investigation or STR exists.

Report suspicious transactions, including attempts, regardless of amount, to STRO/CAD with a copy to MAS. The CMI need not prove the crime; reasonable grounds for suspicion are enough. The internal process should refer cases to a single compliance point, investigate and file as soon as practicable and generally no later than 15 business days after referral. Material suspicious activities/fraud may trigger the separate MAS reporting requirement, and fraud may also require a police report. Never tip off a client or other person.

Ongoing monitoring tests consistency with the client profile, business, source of funds and risk. Aggregate related accounts/positions, investigate unusual/complex/large transactions without an apparent lawful purpose and document findings. Higher-risk clients need more frequent reviews; triggers include significant transactions, material changes in account operation, major policy changes and insufficient information. Tax-related review considers tax-residency changes, information-exchange arrangements, CRS/AEOI and tax-amnesty participation.

7.10 Enterprise-wide risk assessment

Assess clients, countries, products, services, transactions, delivery channels and business lines across the firm, using qualitative and quantitative analysis. Weight risk factors in a calibrated manner. Review at least every two years or on material triggers such as new client segments, products or delivery channels; document and obtain senior-management approval. Implement controls and enhanced measures for higher risks.

7.11 New products, practices and technologies

Before launch, assess ML/TF risk separately from credit, market and operational risk, especially where anonymity is increased. Senior management and heads of business, risk and compliance should approve mitigation.

7.12 Operational controls

Control premises, systems, data integrity, passwords and privileged access on a need-to-know basis; change passwords; prohibit sharing; use clean-desk, dual payment control, hold-mail controls, IT/fraud training and

audit. The “FRAUD” reminder is: Follow policy, Report concerns, Act on suspicion, Unite with management/enforcement and expect Disciplinary/criminal consequences.

7.13 Reporting and records

Maintain a central reporting point, STR register and supporting records. Group policies should extend across branches/subsidiaries, share necessary CDD/transaction information and apply the higher standard where local law permits.

7.14 Penalties

Non-compliance creates legal, regulatory, financial, civil/commercial and reputation risk; tipping-off is itself an offence.

7.15 Policy, audit and training

Compliance needs a qualified, resourced AML/CFT officer with access to records; internal audit must be independent and adequately resourced. Training must be tailored, recorded, effective and refreshed at least every two years. Hiring checks should cover past employers, AML/TF information, bankruptcy and risk-based credit history.

7.16 Effectiveness

MAS's three-pillar view is:

- Governance: board/senior-management tone, oversight, resources, reporting and remediation.
- Risk awareness: ownership, accountability, tailored guidance, red flags, escalation and continuous learning.
- Execution: effective policies, calibrated monitoring, enhanced CDD, timely escalation, STRs and closure of past issues.

Exam cues

- ML stages: placement → layering → integration, in order. Capital markets suit layering.
- Which statute: CDSA (money laundering), TSOFA (terrorism financing), MACMA (cross-border assistance), Penal Code (general). Know the fit.
- Numbers: CDD/verification threshold S\$20,000; retain client and transaction records five years; STR as soon as practicable and generally within 15 business days of referral; training refreshed at least every two years; enterprise-wide risk assessment reviewed at least every two years.
- Beneficial owner: generally >25% ownership; if unclear, ultimate control; if none, executive authority. Trusts: settlor, trustee, protector, beneficiaries.
- Three lines of defence: business (1st) → compliance/AML-CFT (2nd) → independent internal audit (3rd); the board and senior management retain final accountability.
- Reporting: STR to STRO/CAD with a copy to MAS; reasonable grounds suffice — do not need to prove the crime. Tipping off is itself an offence.
- Trap: a positive sanctions hit requires freezing and reporting, not merely monitoring; reliance on another institution does not remove the CMI's responsibility.

RES 1B appendices

Appendix A — Fit and Proper Criteria

Assess honesty, integrity and reputation; competence and capability; and financial soundness. Failure on one factor is not automatically determinative; consider seriousness, relevance to duties and time elapsed. Review regulatory discipline, criminal/civil proceedings, dishonesty, misrepresentation, complaints, prohibited status, unwillingness to comply, untruthfulness to regulators, insolvency, dismissal, competence/qualification, concurrent

conflicts, bankruptcy, unsatisfied judgments, winding-up and receivership. Firms must have proper shareholders/directors/officers and recruitment/control processes.

Appendix B — CAR criteria

Knowledge/experience may be demonstrated by prescribed diploma/degree subjects, professional finance qualifications, at least six listed-SIP transactions in the preceding three years, or three consecutive years of relevant investment-product work in the preceding ten years. An independent learning module may help where the customer initially fails.

Appendix C — CKA criteria

The education and professional-qualification routes are similar. Experience is product-specific: at least six CIS/ILP transactions for those products, or six other unlisted-SIP transactions for other unlisted SIPs in the preceding three years, or three consecutive years' relevant work in the preceding ten years. An approved independent module may help.

Appendix D — Overseas-listed risk warning

The warning covers different regulation/investor protection, legal systems and redress, reporting/accounting language, repatriation and foreign-investor restrictions, tax, currency/exchange controls, additional fees, foreign counterparties/correspondent brokers and political/economic/social conditions. Obtain acknowledgement before first transaction.

Appendix E — Excluded Investment Products

The list includes ordinary shares, certain share units, issuer rights/options/derivatives, business-trust units and derivatives, listed real-estate CIS units, certain tightly limited CIS structures, debentures other than specified asset-backed securities/structured notes, immediate currency-exchange arrangements and stapled combinations of EIPs. Classification must remain accurate and current.

Appendix F — Suspicious transaction examples

Red flags include economically irrational trading, many accounts and transfers, immediate withdrawals, sudden dormant-account activity, unexplained delinquent repayment, unclear investment-management source of funds, large cash or cash-like deposits, third-party cheques, employee/company transfers, offshore structured movements, unknown beneficiaries, unexplained collateral, high-risk cross-border transfers, pseudonyms/numbered accounts, tax-evasion indicators, terrorism links, frequent signatory changes, rapid use of incoming funds as collateral, unusual young-person transfers and unregulated intermediaries. A single flag is not conclusive; assess the combination and plausibility.

Appendix G — Review questions

The source questions cover licensing changes, overseas-product warnings, statements, trust-account advances, extraterritorial market conduct, false information, connected persons, securities lending, penalties, ethics, conflicts, risk profiling, investor category, recommendations, best execution, client relationships, CPFIS and AML. They are orientation questions, not a complete study substitute.

The 30 source questions are organised as follows:

1. Chapter 2: notification of changes to a CMS licence holder's records; fit-and-proper considerations for representatives; the signed overseas-listed product risk-warning acknowledgement; monthly account statements and exceptions; and permitted advances of a CMS holder's money to a customer trust account.
2. Chapter 3: extraterritorial insider trading; techniques for circulating false or misleading information; connected-person transactions; securities borrowing and lending conditions; and civil, criminal and other consequences of market misconduct.

3. Chapter 4: external influences on ethical judgement; self-interest threats; misrepresentation; conflicts of interest; and applying an ethical decision framework.
4. Chapter 5: the four-eyes control for objective risk profiling; investor-category classification; information required at onboarding; best execution; and practices that build a strong client–representative relationship.
5. Chapter 6: the 35% CPFIS-OA limit, agent banks, eligibility, ETF inclusion criteria and the probate document used to claim residual CPFIS investments after death.
6. Chapter 7: placement, layering and integration; the main money-laundering statute; five-year document retention; KYC information; and the response to a sanctions-list match.

These questions familiarise candidates with scope, general nature and format; they do not cover all examination material. The expanded question bank in RES12B_QUESTIONS.md therefore includes both these themes and additional application questions.

Appendix H — Essential readings

Use the primary material rather than treating the study guide as a substitute for law. The readings include:

- Securities and Futures Act;
- Securities and Futures (Licensing and Conduct of Business) Regulations;
- Securities and Futures (Financial and Margin Requirements for Holders of Capital Markets Services Licences) Regulations;
- Guidelines on Criteria for the Grant of a CMS Licence (SFA 04-G01);
- Guidelines on Fit and Proper Criteria (FSG-01);
- MAS Notice on Reporting of Misconduct of Representatives (04-N11);
- MAS Notice on Competency Requirements for Representatives (04-N22);
- MAS circular on due-diligence checks and documentation for appointed, provisional and temporary representatives;
- MAS Notice on Sale of Investment Products (SFA 04-N12);
- Banking Secrecy Act and Personal Data Protection Act;
- CPF Investment Scheme materials;
- Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act;
- Mutual Assistance in Criminal Matters Act;
- Terrorism (Suppression of Financing) Act;
- MAS capital-markets AML/CFT notice SFA04-N02 and its guidelines;
- MAS Notice 626 for banks;
- Income Tax Act and Goods and Services Tax Act; and
- the applicable MAS and SGX rules and guidance.

These materials were identified in the source as available from Singapore Statutes Online, MAS or CPF. Treat the current statutory text and MAS/SGX rules as authoritative for live practice.

Part II — RES 2B

Chapter 1 — The capital markets industry and derivatives participants

The derivatives-specific market map. RES 1B covers MAS, SGX, SGX-ST, CDP, SGX-DT and SGX-DC; RES 2B adds the derivatives venues and clearing houses. The examination tests who may trade or clear derivatives and under which rules.

1.1 Introduction

The primary market raises capital through shares, bonds/fixed-income securities and company warrants. The secondary market lets investors transfer risk and manage positions. Futures, options, warrants and leverage certificates are derivatives. OTC markets are decentralised and negotiated; exchanges centralise orders and provide price/quantity discovery. Trading requires exchange membership or a Trading Member relationship.

1.2 Institutional participants

Banks, CMS broker/dealers and fund managers participate in derivatives markets. Broker/dealers do not take deposits; they match or route orders and may be Trading or Clearing Members. Fund managers run segregated mandates and collective schemes across bonds, equities and derivatives.

Remote overseas trading/clearing members may be exempt if they are foreign-incorporated, members of the relevant venue, do not serve Singapore residents, are not Singapore-regulated financial institutions, are supervised at home and have a suitable MAS information-sharing arrangement. A remote SGX clearing member also cannot have a MAS-regulated financial-institution affiliate.

1.3 Regulatory bodies and rule sources

The objectives and roles of MAS, SGX, SGX RegCo, SGX-ST, CDP, SGX-DT and SGX-DC are as for RES 1B. RES 2B adds:

Body	Role
IFSG	approved derivatives exchange under the SFA; IFSG Rules govern members
ICE Clear Singapore	approved clearing house and CCP for IFSG futures; ICE Clear Rules govern members
APEX	approved international derivatives exchange for commodity and financial futures/options — agriculture
APEX Clear	approved clearing house/CCP for APEX products

The rule sources are SFA/SFR, SGX-ST Mainboard/Catalist and Trading Rules, CDP Clearing/DVP/Depository Rules, SGX-DT Futures Trading Rules, SGX-DC Clearing Rules, IFSG Trading Rules and Procedures, ICE Clear Singapore Rules and Procedures, and APEX/APEX Clear Rules and Procedures.

Exam cues

- Who may clear: IFSG futures clear through ICE Clear Singapore; APEX products through APEX Clear; SGX-DT and eligible OTC through SGX-DC.
- Remote member exemption: foreign-incorporated, member of the venue, no Singapore residents served, home-supervised, with an MAS information-sharing arrangement. A remote clearing member also cannot have a MAS-regulated affiliate.
- Everything in RES 1B Chapter 1 (MAS, SGX, SGX-ST, CDP, SGX-DT, SGX-DC, SGX RegCo) also applies here.
- Trap: broker/dealers do not take deposits — that is a bank activity, not a CMS dealing activity.

Chapter 2 — Licensing and business operations

The derivatives-specific licensing and operational rules. They parallel RES 1B; the differences are the base-capital table and the derivatives account, risk-disclosure and register-of-interests requirements.

2.1 Licensing

Corporations dealing in derivatives as principal or agent require the appropriate CMS licence unless exempt. A variation is required to add a regulated activity or additional product.

2.2 Base capital

Activity/entity	BCR
Exchange-traded derivatives: clearing member	S\$5m
Exchange-traded derivatives: trading member or non-member	S\$1m
Exchange-traded derivatives: introducing broker	S\$500k

Activity/entity	BCR
Exchange-traded derivatives: other	S\$50k
OTC derivatives: clearing member	S\$5m
OTC derivatives: non-clearing member with retail clients	S\$5m
OTC derivatives: non-clearing member with only non-retail clients	S\$1m
OTC derivatives: other	S\$500k
Specified commodity futures: clearing member	S\$1m
Specified commodity futures: non-clearing member/non-member	S\$500k
Specified commodity futures: introducing/restricted broker	S\$250k
Leveraged FX: retail clients	S\$5m
Leveraged FX: AI/II/EI clients	S\$1m

The application, management, notification, lapse, approval and duty requirements parallel RES 1B, but derivatives firms must also account for exchange/clearing-house membership and product-specific controls.

2.3 Representatives

Representatives need notification/registration and may act for one principal unless permitted otherwise. Competency, education, relevant experience, CMFAS, fit-and-proper, identity, work-authorisation, past-record, bankruptcy and credit checks apply. RNF status, public register, RNF number, cessation, the seven-day individual notification and 14-day principal notification, and continuing education apply as for RES 1B.

2.4 Advertising

Product advertisements must be truthful, fair, balanced, clear, legible, properly approved and carry the MAS non-review statement. Non-product advertisements must not mislead, falsely promise free services or exploit inexperience.

2.5 Confidentiality

Customer order information may be disclosed only where needed for execution, permitted by market/clearing rules, or required by MAS. Banking secrecy, PDPA, DNC checks and clear consent apply.

2.6 Opening and management of derivatives accounts

Before opening a derivatives account, provide a separate Form 13 risk-disclosure document and obtain the customer's signed and dated acknowledgement that he received and understood it. Monthly statements show derivatives/spot-FX positions, establishment prices, marked-to-market unrealised P&L, custody assets, asset movements, customer money movements and charges/credits. Exceptions: clearing-house information, no account change, and eligible non-retail real-time statements or written non-receipt. A quarterly statement is required if the last month of the quarter had no monthly statement.

Issue contract notes by the next business day, identifying the firm, customer, date, derivatives type/quantity, price, consideration, adjustments, commission and taxes, and principal/dealing-against-customer status. For OTC derivatives, a transaction confirmation may replace the contract note if it states holder, counterparty, principal status, date, type and notional value.

2.7 Books and audit trails

Keep English books and records for at least five years, including customer/guarantor/authorised-trader information, money/assets, powers of attorney, agreements, Form 13/Form 14 acknowledgements, OTC account documents, orders, advertisements, communications, confirmations, proprietary trades, income/expenses, assets/liabilities and all OTC transactions. Audit, five-month filing, immediate auditor reporting, and the prohibition on destroying/concealing/altering books apply.

2.8 Customer money/assets and fiduciary controls

Treat customer money/assets as belonging to customers and segregate them. Trust/custody accounts must be held with permitted institutions/custodians; conduct due diligence, obtain acknowledgements, disclose commingling/insolvency/foreign-law risks and ensure interest/returns accrue to customers. Investment of customer money is limited to permitted government securities/debt instruments with records. The firm may advance its own funds only to prevent underfunding/undermargin or maintain the account, and may retain returns on that advance.

Customer agreements and custody agreements must describe authority, liens, collateral realisation, commingling, registration, entitlements, information, liability and fees. Withdrawals are limited to customer/entitled payments, proper charges, customer directions, customer obligations, clearing/investment purposes, lending, lawful collateralisation or law. Customer assets may be mortgaged only up to the debt, with retail disclosure, risk explanation and written consent. Compute trust/custody account balances and required customer amounts at least daily, before noon each business day, and retain supporting data for five years. Do not transfer retail customer money title except for compliant specified-product lending.

2.9 Register of interests in listed specified products

CMS holders and representatives must record interests in listed specified products within seven days of acquisition, retain the entry at least five years, keep a copy in Singapore and provide it to MAS on request.

Exam cues

- BCR: leveraged FX and OTC derivatives with retail clients sit at the S\$5m tier; derivatives clearing members are S\$5m; specified commodity futures are lower. Where more than one applies, take the highest.
- Form 13: separate derivatives risk-disclosure document with a signed and dated acknowledgement before the account opens. Form 14 covers the overseas-listed product warning.
- Register of interests: listed specified products, within 7 days, retained 5 years, copy in Singapore.
- Daily control: compute trust/custody balances at least daily, before noon each business day.
- Trap: a transaction confirmation may replace a contract note for OTC derivatives only, and only if it carries the stated content.

Chapter 3 — Market conduct for derivatives

The derivatives application of the market-conduct rules — the same prohibitions as RES 1B, plus derivatives-specific conduct (bucketing, hunting for stops, cornering) and trading-practice rules.

3.1 Scope

Rules apply extraterritorially to derivatives listed/quoted outside Singapore when the act occurs in Singapore, and to derivatives listed/quoted in Singapore when the act occurs abroad.

3.2 Securities-based derivatives

Securities-based derivatives include derivatives on securities or securities indices — equity-index futures/options, leverage certificates and structured warrants — so the securities-market rules reach them.

3.3 False trading and market rigging

Do not create artificial activity, trade without beneficial ownership, act recklessly to create a false market, or use transactions to mislead. Derivatives examples include hunting for stops — pushing bids/offers to trigger stop orders — and wash trades with no economic value, including coordinated accounts or same contract/strike/expiry trades.

3.4 Manipulating derivatives prices and cornering

Do not manipulate or attempt to manipulate a derivatives price or its underlying, and do not corner or attempt to corner the underlying. Cornering means acquiring enough of the underlying to control price and force short sellers to cover at inflated prices.

3.5 Securities and securities-based derivatives manipulation

Do not effect two or more transactions that raise, lower, maintain or stabilise the price of securities or securities-based derivatives with an intention to induce others to deal.

3.6 False or misleading statements

False/misleading statements may be distributed through reports, media, electronic means or word of mouth and may induce buying/selling or affect price.

3.7 Bucketing

Bucketing is taking the opposite side of a customer's derivatives order, or pretending to execute it, without a bona fide market purchase/sale. It denies competitive execution and is prohibited. Taking the opposite side requires prior consent and compliance with market rules.

3.8 Fraudulent inducement

Do not induce trading through knowingly false statements, dishonest concealment, reckless false/deceptive statements or false recorded information.

3.9 Deceptive devices

Section 201 catches schemes, fraud, material false statements and material omissions.

3.10 Insider trading

Inside information, general availability, connected/non-connected persons, the no-intention rule, exceptions and parity-of-information defences apply to derivatives and securities-based derivatives. Do not trade, procure trading or communicate inside information.

3.11 Illegal-transaction information

Do not circulate information about illegal transactions to benefit from their price effect.

3.12 Non-disclosure of orders

Order information stays confidential except for execution, market/clearing rules, or MAS.

3.13 Withdrawal or withholding of orders

Do not withhold or withdraw a customer order for your own or another's benefit.

3.14 Trading against customer orders

Do not trade against a customer's futures order for the firm, an associate/connected person or an interested account unless prior consent and market-rule conditions are met.

3.15 Front running and priority

Do not trade personally before a customer's same-class order; comply with customer priority.

3.16 Cross trades

Simultaneous buy/sell orders for different accounts must be exposed/executed through the approved electronic system or according to market rules. Test questions often ask which side should be exposed first when prices differ in attractiveness.

3.17 Churning

Excessive trades to generate commissions without sound opportunities.

3.18 Overtrading

Positions must stay within firm, sponsor, exchange, clearing-house and regulatory limits; excess positions must be reduced.

3.19 Pre-arranged trades

Agreed or predetermined prices/trades between dealers/brokers undermine fair and transparent markets.

3.20 Penalties

Report suspected manipulation, false trading or insider trading promptly to MAS and the relevant exchange. Breach may lead to criminal/civil penalties, compensation, suspension/loss of licence or registration, and reputation loss.

Exam cues

- Bucketing is the derivatives-specific trap: taking the opposite side, or pretending to execute, without a bona fide market trade — prior consent is required.
- Hunting for stops and wash trades are the false-trading examples; cornering is the manipulation of the underlying.
- Section 201 is again the broad anti-fraud catch-all.
- Trading-practice rules: non-disclosure, no withholding/withdrawal, no trading against, no front running, cross trades exposed through the approved system, no churning, no overtrading, no pre-arranged trades.
- Trap: prior consent makes taking the opposite side permissible; without it, it is bucketing.

Chapter 4 — OTC derivatives

Decentralised, negotiated derivatives and the regime built around them after 2008. The examination tests which persons must report or clear, what the risk-disclosure documents are, and the dealing-practice standards.

4.1 Overview

OTC derivatives are negotiated through dealers/brokers on a decentralised network, usually with less public price transparency and bilateral counterparty risk. Clearing houses can interpose as CCP, backed by margin and a mutualised default fund. Common products include interest-rate swaps, non-deliverable interest-rate swaps, cross-currency swaps, forward-rate agreements and commodity swaps. Compared with exchange markets, OTC markets have more sophisticated counterparties, longer-lived relationships, more tailored/non-standard terms and inter-dealer broking.

4.2 Regulatory regime

Post-2008 reforms introduced trade repositories, extended market-operator/clearing/intermediary regulation and mandated reporting/clearing of prescribed OTC derivatives. Specified persons — banks, bank subsidiaries, merchant banks, finance companies, insurers and CMS holders — must report specified interest-rate, credit, FX, commodity and equity derivatives traded/booked in Singapore to a licensed repository. Section 129C requires prescribed contracts to be cleared with an approved/recognised clearing house.

4.3 SGX-DC clearing

Eligible OTC commodity derivatives are registered through Titan OTC. Clearing members post initial/maintenance margin, obtain customer margin and pay variation margin for mark-to-market movements. A member may set higher internal requirements and must review them continuously.

4.4 Risk disclosure

Form 13 and relevant Form 14/industry-standard disclosure documents must explain leverage, market, counterparty, settlement, liquidity and other product risks before account opening/execution as required. Overseas-listed products require the separate risk warning and acknowledgement.

4.5 OTC dealing practices

State all material terms clearly, disclose minimum dealing amounts/credit limits early, use standard confirmations and terminology, and use negotiated master agreements such as ISDA with governing law, netting, default, termination and undertaking terms. Credit-support documents should address collateral, transfer and legal regime. If a broker cannot substantiate a quotation and a difference is payable, close at the next available price and settle the difference with the principal.

Exam cues

- Reporting: specified persons → licensed trade repository. Clearing: prescribed contracts → approved/recognised clearing house (s.129C).
- Documents: Form 13 is the derivatives risk disclosure; Form 14 is the overseas-listed product warning.
- ISDA master agreement covers governing law, netting, default, termination and undertakings; a credit-support document covers collateral and transfer.
- Trap: bilateral counterparty risk is the OTC default; a CCP reduces it but adds margin and default-fund considerations — it does not eliminate risk.

Chapter 5 — Ethics and standards for derivatives dealing

The ethics framework applied to derivatives, plus the best-execution standard and the wholesale-market codes. The examination tests the same framework as RES 1B with derivatives-specific risks.

5.1 Ethics and importance

Apply the same client-first ethical framework as RES 1B — ethics goes beyond the legal minimum.

5.2 Ethical framework

The client-centred cycle and the three threats (self-interest, self-review, influence) apply as for RES 1B.

5.3 Ethical dilemmas

With derivatives-specific attention to leverage, complexity, long-lived OTC exposures, principal/client information and market integrity.

5.4 Standards and procedures

Professionalism requires law, independence/objectivity, no misrepresentation or misconduct and continuing competence. Protect market integrity from material non-public information and informational/transactional manipulation. Duties to clients include loyalty, prudence, care, fair dealing, complaints handling, suitability, written investment-management agreements, accurate performance presentation and confidentiality of clients/principals/counterparties. Do not reveal a principal's identity prematurely or pressure other market participants. Duties to employers include loyalty, no misuse of confidential information, no client-list solicitation/misappropriation/self-dealing, transparent additional compensation and proper supervision/whistleblowing.

Diligence requires a reasonable basis and research. Communicate investment process, limitations, risks, important factors, costs, fact/opinion distinctions and retain records. Avoid or disclose conflicts; give client/employer trades priority; disclose referral fees, gifts and benefits. Procedures include segregation of sales/dealing/research, resisting sponsor/issuer influence, protecting opinion integrity, supervisory reviews, gift limits, a designated compliance officer and continuous training.

- SFEMC Blue Book: wholesale-market standards covering general dealing, ethics, governance/risk/compliance, back office and instrument-specific practices.
- BIS FX Global Code: ethics, governance, information sharing, execution, risk management/compliance, and confirmation/settlement.

5.5 Best execution for derivatives

Take reasonable steps for the best overall result, considering price, cost, speed, likelihood of execution/settlement, size and execution quality. Use written policies, time priority for comparable orders, no PFOF, monitoring and clear disclosure. Distinguish agent and principal capacities, handle orders fairly and transparently, prohibit improper staff/client or house-account cross trades, and disclose risk.

5.6 Applying the ethical framework

Gather facts, identify ethical issues, identify stakeholders, use internal reporting/whistleblowing, evaluate alternatives, implement and monitor the best action, and document the reasoning. In suitability cases, protect the client's long-term objectives even where a more aggressive strategy would earn more commission.

Exam cues

- Same framework as RES 1B, with derivatives-specific emphasis on leverage, complexity, long-lived OTC exposures and principal/client information.
- Best execution: price, cost, speed, likelihood of execution/settlement, size, execution quality. No PFOF.
- Codes: the SFEMC Blue Book (Singapore wholesale market, instrument-specific) and the BIS FX Global Code (global conduct principles).
- Trap: suitability — protect the client's long-term objectives even where a more aggressive strategy earns more commission.

Chapter 6 — Derivatives dealing practices and skills

How a derivatives representative profiles a client, analyses markets, formulates a strategy, executes and monitors it, and manages the risks — including CAR/CKA for SIP accounts.

6.1 Scope

Recommendations require a reasonable basis unless the firm merely executes instructions or gives qualifying execution-related advice on listed EIPs. The process runs from client profiling and market analysis to strategy formation, implementation, execution, monitoring and risk management.

6.2 Market-information analysis

Approach	Basis	Best horizon
Fundamental	company/industry financials, ratios and valuation	long-horizon equity decisions
Technical	historical price/volume patterns and charts	shorter horizons and market fluctuations
Global macro	interest rates, policies, geopolitics, systemic forces	thematic/top-down views

Use reliable sources and conduct due diligence on third-party research, including the author's experience, reputation and possible bias.

6.3 Trading-strategy formulation

Reassess the overall purpose: alpha/excess return or hedging. Define return and risk objectives, performance targets, benchmarks, fees/taxes/inflation/spending assumptions, asset-allocation targets and ranges, and risk tolerance. Address time horizon, liquidity needs, legal constraints and foreign-investment restrictions.

Risk management should use consistent metrics, a rebalancing plan and the five-step cycle: identify, assess, evaluate, respond and report. Rebalancing can reduce exposure to events or implement tactical asset allocation.

6.4 Implementation and monitoring

Obtain client information before advice; review profiles/needs at least annually; disclose margin risks; document recommendations/warnings for at least five years as good practice; disclose conflicts; ensure disclaimers match actual conduct; and execute with regard to size, frequency, cost, derivatives exposure, DMA/algorithmic execution for small liquid trades and custom handling for large information-sensitive trades.

Risk skills include stop-losses, daily loss limits and Value at Risk. Monitor risk, return, performance versus benchmark and variances, report and explain changes, and refine the portfolio.

6.5 KYC for derivatives clients

Obtain client information before advice and keep it current; the onboarding and CDD standards of RES 1B Chapter 5 apply.

6.6 SIP accounts

For retail clients trading SIPs, conduct CAR for listed SIPs and CKA for unlisted SIPs. The same qualification, six-transaction and three-year relevant-experience tests apply, with product-specific experience for unlisted SIPs.

- Independent senior management approval is needed for a SIP account.
- A negative CAR may still lead to a listed-SIP account only with written outcome, customer confirmation, risk explanation and responsibility warning.
- A negative CKA generally prevents unlisted-SIP dealing unless the firm is also an exempt financial adviser providing advice.
- Validity: CAR three years; CKA one year. Keep assessment, outcome, approval and communications.
- For overseas-listed products, give and record the risk warning; classify EIPs accurately; if classification is not implemented, treat as SIP and perform CAR; outsourced classification remains the CMS holder's responsibility.

6.7 Risk management

Risk	Meaning / control
Operational	failed processes, people, systems, external events — business continuity, controls, trained staff, r
Market	FX, interest, credit-spread, equity, commodity movement — diversification, limits, monitoring

Risk	Meaning / control
Correlation	linked instruments move together and amplify exposure
Political/legal	policy, intervention, conflict, terrorism, regulatory change
Gap	price jumps past a stop-loss with no tradable prices in between
Capital	loss of principal, potentially exceeding it in margin trading
Technology	cyberattack, outage, system failure — critical-system downtime requires prompt MAS notification
Credit/counterparty	an obligor defaults — reduce exposure, set limits, use collateral/clearing
Liquidity	inability to fund obligations or close positions without unacceptable loss — liquid assets, diversified
Regulatory	laws/rules make activities more costly or unavailable — monitor and adapt
Interconnected/systemic	one institution or market failure transmits through connected counterparties

MAS's CRAFT/impact-and-risk supervision uses diagnostic and remedial tools. AML/CFT risk management requires risk comprehension, board governance, transaction monitoring and customer acceptance/risk profiling.

Exam cues

- CAR vs CKA: listed SIP → CAR; unlisted SIP → CKA. Negative CAR may still permit a listed-SIP account with written confirmations; negative CKA generally blocks unlisted dealing unless the firm is also an exempt financial adviser.
- Analysis tools: fundamental (long horizon), technical (short horizon), global macro (top-down).
- Risk cycle: identify → assess → evaluate → respond → report.
- Risk types: operational, market, correlation, political/legal, gap, capital, technology, credit/counterparty, liquidity, regulatory, interconnected/systemic.
- Trap: a negative CAR is not an automatic bar (with written confirmations); a negative CKA is a bar unless the firm can give advice as an exempt financial adviser.

RES 2B appendices

- Appendix A — CAR: education/professional qualification, six listed-SIP transactions in three years, or three consecutive years' relevant work in ten years; independent learning may help.
- Appendix B — CKA: education/professional qualification, six relevant unlisted transactions in three years (with separate CIS/ILP treatment), or three consecutive years' relevant work; approved learning may help.
- Appendix C — overseas-listed risk warning: regulatory, legal, disclosure, repatriation, tax, currency, fee, counterparty and political/economic/social risks.
- Appendix D — EIPs: refers to the class listed in the Schedule to the Securities and Futures (Capital Markets Products) Regulations 2018.
- Appendix E — suspicious transactions: the same categories of economically irrational activity, cash, account, foreign-transfer, unidentified-party, tax and terrorism-related red flags explained in the shared Chapter 7.
- Appendix F — Review Questions: the 15 source questions cover licensing changes, cessation of regulated activity, five-year records, hunting for stops, forms of market misconduct, front-running, OTC products, the ethical framework, back-tested performance, best execution, CKA exemptions, regulatory risk, the principal AML statute, sanctions-list action and the fact that terrorism financing may involve legitimate funds and need not involve large amounts.
- Appendix G — Essential Readings: SFA; SFR(LCB); SFR(FMR); PDPA; CDSA; MACMA; TSOFA; Income Tax Act; GST Act; MAS guidance on CMS licensing, competency, fit-and-proper criteria, sale of investment products, OTC derivatives and AML/CFT; and SGX, ICE Clear Singapore, APEX and APEX Clear rules and procedures.

Final revision checklist

Before an examination, be able to explain the difference between:

- primary and secondary markets;
- exchange and OTC trading;
- MAS, SGX/SGX RegCo, trading venues, clearing houses and CDP;

- AI, II, EI and retail customers;
- CAR and CKA;
- EIP and SIP;
- customer money and customer assets;
- trust and custody accounts;
- false trading, manipulation, deceptive devices, bucketing, front-running, churning and pre-arranged trades;
- inside information and generally available information;
- agent and principal execution;
- price, cost, speed, likelihood, size and execution quality in best execution;
- placement, layering and integration;
- CDD, simplified CDD, EDD, PEP controls and ongoing monitoring;
- STR filing and tipping-off; and
- operational, market, credit, liquidity, technology, regulatory, interconnected and AML/CFT risks.